

**Orange City Area Health System,
an Administrative Agency of the
City of Orange City, Iowa
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa**

FINANCIAL REPORT

June 30, 2016

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**Orange City Area Health System
OFFICIALS
June 30, 2016**

Board of Trustees

Expiration of term

Randy Jacobsma, Chairman
Tim Zeutenhorst, Vice Chairman
Brenda Richardson, Secretary
Jerry Henrich
Chris Immeker
Kathy Alons
Russ Adams

January, 2020
January, 2020
January, 2018
January, 2020
January, 2018
January, 2020
January, 2018

Chief Executive Officer

Martin W. Guthmiller

Director, Financial Services

Dina A. Baas



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Orange City Area Health System,
an Administrative Agency of the City of Orange City, Iowa
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa

We have audited the accompanying financial statements of Orange City Area Health System, an Administrative Agency of the City of Orange City, Iowa, d/b/a Orange City Area Health System (Hospital), a component unit of the City of Orange City, Iowa, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have audited the accompanying financial statements of Orange City Area Health Foundation (Foundation), a component unit of Orange City Area Health System, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 19 to the financial statements, during the year ended June 30, 2015, the Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Orange City Area Health System, as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the accompanying financial statements of the Orange City Area Health Foundation presents fairly, in all material respects, its financial position as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-11, schedule of funding progress for the retiree health plan on page 41, budgetary comparison schedule on page 42, and the schedule of the Hospital's proportionate share of the net pension liability on page 43, and the schedule of Hospital pension contributions on pages 44-45, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange City Area Health System and Orange City Area Health Foundation's basic financial statements. Other supplementary information included on pages 48-61 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the portion marked "unaudited", has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016 on our consideration of Orange City Area Health System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange City Area Health System's internal control over financial reporting and compliance.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 20, 2016

Orange City Area Health System Management's Discussion and Analysis

As management of Orange City Area Health System, we offer readers of the financial statements this narrative overview and analysis of the Health System's financial performance during the fiscal years ended June 30, 2016, 2015 and 2014. Please read it in conjunction with the Health System's financial statements, which follow this section.

Financial Highlights

- Total assets increased by \$1,382,176 to \$65,631,197.
- Total assets whose use is limited increased by \$876,179.
- Total net position increased by \$3,845,623.
- Total long-term debt decreased by \$1,922,024.
- Net patient service revenue increased by \$4,123,288, due to an increase in both inpatient and outpatient services.
- Expenses increased by \$2,792,381, which is due to a net increase in other professional services, depreciation, and financing costs.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Orange City Area Health System. The basic financial statements of the Orange City Area Health Foundation, a component unit, are separately presented. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of Orange City Area Health System report information of the Health System using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The statement of net position includes all of the Health System's assets, liabilities, deferred outflows and inflows, and provides information about the nature and amounts of investments in resources (assets) and the obligations to Health System's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Health System and assessing the liquidity and financial flexibility of the Health System.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Health System operations over the past year and can be used to determine whether the Health System has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Orange City Area Health System's Net Position

The statements of net position and the statement of revenues, expenses, and changes in net position report the net position of Orange City Area Health System and the changes in them. Orange City Area Health System's net position – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

A summary of Orange City Area Health System's statements of net position is presented in Table 1.

Table 1: Condensed Statements of Net Position (in Thousands)

	June 30		
	<u>2016</u>	<u>2015</u>	<u>2014</u> (Not restated)
Assets:			
Current assets	\$21,613	\$17,400	\$15,402
Assets whose use is limited, net of current	7,350	7,644	7,366
Capital assets, net	35,803	38,384	40,992
Other assets	<u>865</u>	<u>821</u>	<u>130</u>
Total assets	<u>65,631</u>	<u>64,249</u>	<u>63,890</u>
Deferred outflows of resources	<u>2,480</u>	<u>2,549</u>	<u>–</u>
Liabilities:			
Long-term debt outstanding	23,396	25,396	27,368
Other current and noncurrent liabilities	<u>19,239</u>	<u>16,940</u>	<u>6,324</u>
Total liabilities	<u>42,635</u>	<u>42,336</u>	<u>33,692</u>
Deferred inflows of resources	<u>1,054</u>	<u>3,886</u>	<u>–</u>
Net position:			
Net investment in capital assets	11,370	12,028	12,742
Restricted	2,980	2,965	3,129
Unrestricted	<u>10,072</u>	<u>5,583</u>	<u>14,327</u>
Total net position	<u>\$24,422</u>	<u>\$20,576</u>	<u>\$30,198</u>

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$(12,080,128) to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal year 2014 were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

**Operating Results and Changes in Orange City Area Health System's
Net position**

The following table presents a summary of revenue and expenses for the fiscal years ended June 30, 2016, 2015 and 2014. In 2016, net position increased by approximately \$1,388,000 over the prior year.

Table 2: Operating Results and Changes in Net position (in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u> (Not restated)
Operating Revenues:			
Net patient service revenue	\$45,643	\$41,519	\$39,559
Other operating revenue	<u>3,318</u>	<u>3,285</u>	<u>2,427</u>
Total operating revenue	<u>48,961</u>	<u>44,804</u>	<u>41,986</u>
Operating Expenses:			
Salaries and benefits	24,193	23,367	23,168
Provision for depreciation and amortization	3,632	3,589	3,185
Other operating expenses	<u>16,398</u>	<u>14,398</u>	<u>14,335</u>
Total operating expenses	<u>44,223</u>	<u>41,354</u>	<u>40,688</u>
Operating income	4,738	3,450	1,298
Nonoperating gains (losses):			
Investment income	202	160	128
Interest expense	(1,275)	(1,353)	(1,331)
Other nonoperating gains (losses), net	<u>(3)</u>	<u>—</u>	<u>(96)</u>
Total nonoperating gains (losses)	<u>(1,076)</u>	<u>(1,193)</u>	<u>(1,299)</u>
Excess (deficit) of revenues over expenses before contributions	3,662	2,257	(1)
Contributions	<u>184</u>	<u>201</u>	<u>328</u>
Change in net position	3,846	2,458	327
Total net position, beginning	<u>20,576</u>	<u>18,118</u>	<u>29,871</u>
Total net position, ending	<u>\$24,422</u>	<u>\$20,576</u>	<u>\$30,198</u>

Operating and Financial Performance

The following summarizes Orange City Area Health System's statement of revenue, expenses and changes in net position between June 30, 2016, 2015 and 2014.

Net Patient Service Revenue: Net patient service revenue is a product of volume, price increases and payor mix.

Volume: Hospital discharges for fiscal year 2016 were 976 compared to 944 in fiscal year 2015. Average length of stay increased slightly. Patient days increased from 4,437 to 4,596 in 2016. In 2016, gross inpatient charges increased from \$6,721,947 to \$7,491,004 in 2016. Gross outpatient charges increased from \$41,837,401 to \$45,916,432 in 2016.

Price Increase: As is customary, the Hospital did review its charge structure and incorporated certain price increases in 2016.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were \$14,749,725 in 2016 compared to \$13,740,853 in 2015. This represents 24% of gross patient charges.

The following table displays the percentages of gross charges for patient services by payor for the years ended June 30, 2016, 2015 and 2014.

Table 3: Payor Mix

	Year ended June 30		
	2016	2015	2014
Medicare	38.48%	38.20%	50.60%
Wellmark	40.89%	41.36%	24.70%
Medicaid	8.56%	7.33%	7.80%
Commercial Insurance	10.75%	11.73%	13.80%
Self Pay	<u>1.32%</u>	<u>1.38%</u>	<u>3.10%</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Other Revenue

Occupancy at Landsmeer Ridge, an assisted and independent living complex, increased from 20,451 resident days in 2015 to 21,701 resident days in 2016. In addition, the Hospital leases office space located in the downtown campus to various organizations.

Expenses

Fifty-seven percent of Orange City Area Health System's expenses are attributed to salaries and benefits. Total salaries and benefits increased from \$23.4 million to \$24.2 million.

Capital Assets and Debt Administration

Capital Assets

At the end of 2016, Orange City Area Health System had approximately \$35.8 million invested in capital assets, net of accumulated depreciation, as shown in Table 1. Note 5 to the financial statements provides more detail of changes in property and equipment.

The following table summarizes Orange City Area Health System's capital assets as of June 30, 2016, 2015 and 2014.

Table 4: Capital Assets (in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 862	\$ 862	\$ 862
Land improvements	3,668	3,483	3,455
Buildings	19,152	19,152	19,152
Fixed equipment	37,188	36,693	36,593
Major moveable equipment	11,337	10,732	10,094
Construction in progress	<u>31</u>	<u>265</u>	<u>50</u>
Total	72,238	71,187	70,206
Less accumulated depreciation and amortization	<u>(36,435)</u>	<u>(32,803)</u>	<u>(29,214)</u>
Net capital assets	<u>\$35,803</u>	<u>\$38,384</u>	<u>\$40,992</u>

Long -Term Debt

At June 30, 2016, Orange City Area Health System had \$24,433,313 in long-term debt related primarily to hospital revenue capital loan notes. More detailed information is presented in Note 9 to the Financial Statements.

Performance Compared to Budget

The following table compares fiscal year 2016 actual to budget information.

Table 5: Budget vs. Actual (in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Dollar Variance</u>
Gross patient service revenue	\$59,806	\$60,673	\$ 867
Contractual adjustments	(13,867)	(14,400)	(533)
Provision for bad debts	(390)	(350)	40
Charity care	<u>(335)</u>	<u>(280)</u>	<u>55</u>
Net patient service revenue	45,214	45,643	429
Other operating revenue	<u>1,604</u>	<u>3,318</u>	<u>1,714</u>
Total operating revenue	46,818	48,961	2,143
Operating expenses	<u>45,668</u>	<u>45,499</u>	<u>169</u>
Operating income (loss)	1,150	3,462	2,312
Income from investments	100	202	102
Other nonoperating, including contributions	<u>232</u>	<u>182</u>	<u>(50)</u>
Excess of revenues over expenses	<u>\$ 1,482</u>	<u>\$ 3,846</u>	<u>\$ 2,364</u>

Economic and Other Factors and Next Year's Budget

Orange City Area Health System's Board and management considered many factors when setting the fiscal year 2017 budget. Economic forces and environmental factors, such as the following were considered:

- Medicare and Medicaid reimbursement rates
- Commercial insurance and health network reimbursement rates
- The aging of the population in our market area
- Major employers
- Legislation
- Workforce shortages
- Physician recruitment
- Cost of supplies
- Rising pharmaceutical costs
- Technology advancements
- Contribution receivable collections
- Rising costs of employee benefits

Contacting Orange City Area Health System's Finance Department

Orange City Area Health System's financial statements are designed to present users with a general overview of the finances and to demonstrate Orange City Area Health System's accountability. If you have any questions about the report or need additional information, please contact the finance department at Orange City Area Health System, 1000 Lincoln Circle SE, Orange City, IA 51041.

**Orange City Area Health System
STATEMENTS OF NET POSITION**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	June 30	
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$14,670,707	\$10,762,526
Assets whose use is limited, required for current liabilities	1,051,678	1,033,827
Patient receivables, less allowance for contractual adjustments and uncollectible accounts		
2016 \$2,480,000; 2015 \$2,090,000	5,189,948	4,763,646
Estimated third-party payor settlements	150,000	300,000
Inventories	438,615	470,299
Prepaid expenses	112,206	70,119
Total current assets	<u>21,613,154</u>	<u>17,400,417</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	2,664	2,518
Certificates of deposit	3,874,774	4,542,094
U.S. Government agency securities	5,636	6,172
Accrued interest receivable	17,451	19,617
	<u>3,900,525</u>	<u>4,570,401</u>
Designated by board for deferred compensation		
Mutual funds	<u>921,379</u>	<u>1,142,811</u>
Designated by board for self-insured health insurance claims		
Certificates of deposit	<u>600,000</u>	<u>—</u>
Restricted for payment of revenue notes and interest		
Cash and cash equivalents	1,051,678	1,033,827
Certificates of deposit	1,925,500	1,925,500
	<u>2,977,178</u>	<u>2,959,327</u>
Restricted by donors for specific purpose		
Cash	2,816	5,468
Total assets whose use is limited	8,401,898	8,678,077
Less assets whose use is limited and that are required for current liabilities	1,051,678	1,033,827
Noncurrent assets whose use is limited	<u>7,350,220</u>	<u>7,644,180</u>
CAPITAL ASSETS	72,237,977	71,186,987
Less accumulated depreciation	36,434,924	32,803,355
Total capital assets	<u>35,803,053</u>	<u>38,383,632</u>
OTHER ASSETS	<u>864,770</u>	<u>820,792</u>
Total assets	<u>65,631,197</u>	<u>64,249,021</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>2,480,000</u>	<u>2,549,162</u>
Total assets and deferred outflows of resources	<u>\$68,111,197</u>	<u>\$66,798,183</u>

See Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	June 30	
	2016	2015
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,037,610	\$ 959,803
Accounts payable	795,546	892,750
Accrued payroll and benefits	2,835,152	2,921,491
Payroll taxes	573,647	128,089
Accrued interest payable	418,304	443,910
Estimated third-party payor settlements	150,000	275,000
Deposits	<u>72,000</u>	<u>64,500</u>
Total current liabilities	<u>5,882,259</u>	<u>5,685,543</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	23,395,703	25,395,534
Net pension liability	<u>12,352,000</u>	<u>10,045,417</u>
Total long-term liabilities	<u>35,747,703</u>	<u>35,440,951</u>
OTHER LIABILITIES		
Deferred compensation liability	921,379	1,142,811
Other post-employment benefits	<u>84,000</u>	<u>66,500</u>
Total other liabilities	<u>1,005,379</u>	<u>1,209,311</u>
Total liabilities	42,635,341	42,335,805
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	<u>1,054,000</u>	<u>3,886,145</u>
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net investment in capital assets	11,369,740	12,028,295
Restricted	2,979,994	2,964,795
Unrestricted	<u>10,072,122</u>	<u>5,583,143</u>
Total net position	<u>24,421,856</u>	<u>20,576,233</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$68,111,197</u>	<u>\$66,798,183</u>

See Notes to Financial Statements.

Orange City Area Health System
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year ended June 30	
	2016	2015
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2016 \$349,538; 2015 \$233,080	\$45,642,716	\$41,519,428
OTHER REVENUE	<u>3,318,662</u>	<u>3,284,847</u>
Total revenue	<u>48,961,378</u>	<u>44,804,275</u>
EXPENSES		
Nursing service	11,157,700	10,405,076
Other professional service	18,703,150	17,311,642
General service	1,937,967	1,986,027
Fiscal and administrative service and unassigned expenses	8,793,412	8,062,303
Provision for depreciation	<u>3,631,569</u>	<u>3,589,336</u>
Total expenses	<u>44,223,798</u>	<u>41,354,384</u>
Operating income	<u>4,737,580</u>	<u>3,449,891</u>
NONOPERATING GAINS (LOSSES)		
Investment income	202,008	159,981
Interest and amortization expense	(1,275,313)	(1,352,346)
Nonoperating (loss) from auxiliary activity, net	<u>(2,652)</u>	<u>(657)</u>
Total nonoperating gains (losses)	<u>(1,075,957)</u>	<u>(1,193,022)</u>
Excess of revenues over expenses before contributions	3,661,623	2,256,869
RESTRICTED CONTRIBUTIONS	<u>184,000</u>	<u>201,361</u>
Change in net position	3,845,623	2,458,230
TOTAL NET POSITION		
Beginning (Note 19)	<u>20,576,233</u>	<u>18,118,003</u>
Ending	<u>\$24,421,856</u>	<u>\$20,576,233</u>

See Notes to Financial Statements.

Orange City Area Health System
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$45,241,414	\$41,330,213
Cash paid to suppliers for goods and services	(16,550,946)	(15,836,817)
Cash paid to employees for services	(24,272,550)	(23,144,943)
Other operating revenue received	<u>3,326,162</u>	<u>3,292,347</u>
Net cash provided by operating activities	<u>7,744,080</u>	<u>5,640,800</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating income (loss) from auxiliary activities, net	<u>(2,652)</u>	<u>(657)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,050,990)	(981,177)
Proceeds from issuance of long-term debt	50,001	—
Principal paid on long-term debt	(1,982,447)	(1,904,467)
Restricted contributions	184,000	201,361
Interest paid on long-term debt	<u>(1,290,496)</u>	<u>(1,366,458)</u>
Net cash (used in) capital and related financing activities	<u>(4,089,932)</u>	<u>(4,050,741)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(1,821,491)	(3,732,845)
Proceeds from maturities of certificates of deposit	1,888,809	3,654,136
Proceeds from maturity of U.S. Government Securities	538	1,750
Interest received	<u>204,174</u>	<u>156,143</u>
Net cash provided by investing activities	<u>272,030</u>	<u>79,184</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,923,526	1,668,586
CASH AND CASH EQUIVALENTS		
Beginning	<u>11,804,339</u>	<u>10,135,753</u>
Ending	<u>\$15,727,865</u>	<u>\$11,804,339</u>

See Notes to Financial Statements.

**Orange City Area Health System
STATEMENTS OF CASH FLOWS (continued)**

Year ended June 30
2016 2015

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 4,737,580	\$ 3,449,891
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	3,631,569	3,589,336
Physician advances, net of refunds	(55,333)	(142,000)
Physician advances forgiven	97,500	84,167
Changes in assets, liabilities, deferred outflows and deferred inflows		
Patient receivables	(426,302)	(139,215)
Estimated third-party payor settlements	25,000	(50,000)
Other assets	(86,146)	(632,640)
Inventories	31,684	(35,893)
Prepaid expenses	(42,087)	(51,685)
Accounts payable, net of amounts for capital assets	(97,204)	109,768
Other post-employment benefits	17,500	16,000
Accrued payroll and benefits	(86,339)	323,759
Payroll taxes	445,558	(190,460)
Deposits	7,500	7,500
Pension related deferred outflows	69,162	(1,046,330)
Pension related deferred inflows	(2,832,145)	3,886,145
Net pension liability	<u>2,306,583</u>	<u>(3,537,543)</u>
Net cash provided by operating activities	<u>\$ 7,744,080</u>	<u>\$ 5,640,800</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENTS OF CASH FLOWS TO THE
STATEMENTS OF NET POSITION**

Per statements of net position		
Current assets, cash and cash equivalents	\$14,670,707	\$10,762,526
Assets whose use is limited		
Designated by board for plant replacement and expansion	2,664	2,518
Restricted for payment of revenue notes and interest	1,051,678	1,033,827
Restricted by donors for specific purpose	<u>2,816</u>	<u>5,468</u>
Total per statements of cash flows	<u>\$15,727,865</u>	<u>\$11,804,339</u>

Orange City Area Health Foundation
(A Component Unit of Orange City Area Health System)
STATEMENTS OF FINANCIAL POSITION

	June 30	
	2016	2015
ASSETS		
Cash	\$ 357,744	\$ 489,799
Capital campaign contributions receivable, net of allowance 2016 \$15,000; 2015 \$50,000	22,433	123,282
Property and equipment, net of accumulated depreciation	2,612,347	232,391
Construction in progress	—	161,821
Other	<u>40,101</u>	<u>42,698</u>
Total assets	<u>\$3,032,625</u>	<u>\$1,049,991</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Lease deposit	\$ 556,617	\$ 411,000
Current maturities of long-term debt	<u>65,188</u>	<u>—</u>
Total current liabilities	<u>621,805</u>	<u>411,000</u>
LONG-TERM DEBT , less current maturities	<u>1,694,812</u>	<u>—</u>
NET ASSETS		
Unrestricted	716,008	469,256
Temporarily restricted	<u>—</u>	<u>169,735</u>
Total net assets	<u>716,008</u>	<u>638,991</u>
Total liabilities and net assets	<u>\$3,032,625</u>	<u>\$1,049,991</u>

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Area Health System)
STATEMENTS OF ACTIVITIES

	<u>Year ended June 30, 2016</u>			<u>Year ended June 30, 2015</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
SUPPORT AND REVENUE						
Contributions	\$ 213,172	\$ 15,475	\$ 228,647	\$ 60,040	\$ 19,070	\$ 79,110
Special events	22,375	—	22,375	24,015	—	24,015
Rental income	80,021	—	80,021	—	—	—
Interest income	192	—	192	84	—	84
Net assets released from restrictions	<u>185,210</u>	<u>(185,210)</u>	<u>—</u>	<u>276,701</u>	<u>(276,701)</u>	<u>—</u>
Total support and revenue	<u>500,970</u>	<u>(169,735)</u>	<u>331,235</u>	<u>360,840</u>	<u>(257,631)</u>	<u>103,209</u>
EXPENSES						
Contributions and scholarship	<u>197,569</u>	<u>—</u>	<u>197,569</u>	<u>264,770</u>	<u>—</u>	<u>264,770</u>
Fundraising event	17,523	—	17,523	6,350	—	6,350
Depreciation	36,531	—	36,531	—	—	—
Other	<u>2,595</u>	<u>—</u>	<u>2,595</u>	<u>7,301</u>	<u>—</u>	<u>7,301</u>
Total expenses	<u>254,218</u>	<u>—</u>	<u>254,218</u>	<u>278,421</u>	<u>—</u>	<u>278,421</u>
CHANGE IN NET ASSETS	<u>246,752</u>	<u>(169,735)</u>	<u>77,017</u>	<u>82,419</u>	<u>(257,631)</u>	<u>(175,212)</u>
NET ASSETS , beginning of year	<u>469,256</u>	<u>169,735</u>	<u>638,991</u>	<u>386,837</u>	<u>427,366</u>	<u>814,203</u>
NET ASSETS , end of year	<u>\$ 716,008</u>	<u>\$ —</u>	<u>\$ 716,008</u>	<u>\$ 469,256</u>	<u>\$ 169,735</u>	<u>\$ 638,991</u>

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Area Health System)
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 77,017	\$ (175,212)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	36,531	—
Decrease in capital campaign contributions receivable	100,849	170,038
Decline in value of other asset	2,597	7,302
Lease deposit received from Hospital	145,617	411,000
Net cash provided by operating activities	<u>362,611</u>	<u>413,128</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction in process	—	(161,821)
Purchase of property and equipment	(2,254,666)	—
Net cash (used in) investing activities	<u>(2,254,666)</u>	<u>(161,821)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of note payable	<u>1,760,000</u>	<u>—</u>
NET INCREASE (DECREASE) IN CASH	(132,055)	251,307
CASH		
Beginning	<u>489,799</u>	<u>238,492</u>
Ending	<u>\$ 357,744</u>	<u>\$ 489,799</u>

See Notes to Financial Statements.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hospital is an administrative agency of the City of Orange City, Iowa, d/b/a Orange City Area Health System, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or certain property.

For financial reporting purposes, Orange City Area Health System has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal years ended June 30, 2016 and 2015, the Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Orange City Area Health Foundation (Foundation). The Foundation's financial statements are separately presented on pages 17-19.

The Hospital is includable as a component unit within the City of Orange City, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

Orange City Area Health Foundation's financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the *Financial Accounting Standards Board Accounting Standards Codification*. Under this Topic, the Foundation is required to report information regarding its financial position and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Foundation operations.

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets. The Foundation had \$-0- and \$169,735 of temporarily restricted net assets at June 30, 2016 and 2015, respectively. These net assets are to be used for the benefit of the Hospital, primarily for the Prairie Ridge Care Center campaign, hospice services, or scholarships for eligible Hospital employees.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation had no permanently restricted net assets at June 30, 2016.

Accounting Estimates and Assumptions

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Investments and Investment Income

The Hospital's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts	
Nonnegotiable certificates of deposit	Cost
Open-end mutual funds	
Iowa Public Agency Investment Trust (IPAIT) (governmental external investment pool registered as an investment company)	Amortized cost
Publicly traded mutual funds	Fair value based on quoted market prices
Debt securities	
Negotiable certificates of deposit and U.S. Government Agency Securities	
Maturity of one year or less when purchased	Amortized cost
Maturity of more than one year when purchased	Fair value based on quoted market prices

The nonnegotiable certificates of deposit and U.S. Government Agency Securities are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments. Investment income is reported as nonoperating gains.

Capital Assets

Capital asset acquisitions are recorded at cost. Capital assets donated for Hospital operations are recorded as additions at fair value at the date of receipt.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Depreciation is computed using these asset lives:

Land improvements	5 to 20 years
Buildings and fixed equipment	5 to 40 years
Major movable equipment	5 to 25 years

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Contributions Receivable

Unconditional contributions receivable are recorded as receivables and revenues in the year received.

Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Foundation's Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

Net position is presented in the following three components:

Net investment in capital assets

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of the revenue notes that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position

Restricted net position consists of funds restricted on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position

Unrestricted net position has no externally imposed restrictions on use.

When the Hospital has both restricted and unrestricted resources available to finance a particular program or project, it is the Hospital's policy to use restricted resources before unrestricted resources.

Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts and the IPAIT account to be cash equivalents.

Statements of Revenues, Expenses, and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Operating expenses are all expenses incurred to provide health care services.

Net Patient Service Revenue

Patient service revenue is reported at the Hospital's established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Credit Policy

The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit Risk

The Foundation had amounts on deposit with a financial institution in excess of FDIC insurance limits at various times throughout the year.

Income Taxes

The Foundation's management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation's federal income tax returns, for tax years 2012 and after, which are open by statute, are subject to examination by the tax authorities. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Subsequent Events

The Foundation has evaluated subsequent events through October 20, 2016, which was the date the financial statements were available to be issued. There were no subsequent events required to be accrued or disclosed.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2016, which include bank balances, negotiable and nonnegotiable certificates of deposit, were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district; and common stocks.

The Hospital's investments, except the mutual funds, are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. The mutual fund investments are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name. All investments listed below, except the U.S. Government agency securities, are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

As of June 30, 2016, the Hospital's investments are reported at fair value based upon quoted market prices except for the Iowa Public Agency Investment Trust which is valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 as follows:

	<u>Maturities</u>	
Investments		
Edward D. Jones & Co., money market funds	Daily	\$ 2,023
Negotiable certificates of deposit	09/19/16 - 11/19/18	6,400,274
U.S. Government agency securities	11/15/28 - 11/01/31	5,636
Mutual funds	Daily	921,379
Iowa Public Agency Investment Trust	Daily	<u>1,051,678</u>
Totals		<u>\$8,380,990</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS (continued)

The primary objectives of the Hospital's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. The investment policy limits the investing of operating funds to instruments that mature within three hundred ninety-seven days. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Hospital.

NOTE 3 ASSETS RESTRICTED FOR PAYMENT OF CAPITAL LOAN NOTES AND INTEREST

Assets restricted for payment of capital loan notes and interest are required to be funded by the note resolutions. However, this does not apply to the Series 2012 Capital loan note. The resolutions require, among other things, the maintenance of the "Hospital Revenue Note and Interest Sinking Fund" (the Sinking Fund) and the "Hospital Revenue Debt Service Reserve Fund" (the Reserve Fund). A balance of \$1,925,000 must be maintained in the Reserve Fund while minimum monthly payments to the Sinking Fund equal to one-twelfth of the principal of all notes maturing on the next June 1 plus one-sixth of the interest due on the next interest payment date on all of the outstanding notes are required. Following are the changes in these assets:

	<u>Year ended June 30, 2016</u>			<u>Year ended June 30, 2015</u>		
	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>
BALANCE , beginning	\$1,925,500	\$1,033,827	\$2,959,327	\$1,925,500	\$1,197,352	\$3,122,852
Transfers from current assets						
cash and cash equivalents	—	1,946,043	1,946,043	—	1,762,981	1,762,981
Interest income	—	125	125	—	67	67
Payment of notes and interest	—	(1,928,317)	(1,928,317)	—	(1,926,573)	(1,926,573)
BALANCE , ending	<u>\$1,925,500</u>	<u>\$1,051,678</u>	<u>\$2,977,178</u>	<u>\$1,925,500</u>	<u>\$1,033,827</u>	<u>\$2,959,327</u>

NOTE 4 PATIENT RECEIVABLES

Patient accounts receivable reported as current assets consisted of these amounts:

	<u>June 30</u>	
	<u>2016</u>	<u>2015</u>
Receivable from patients	\$1,978,847	\$1,801,651
Receivable from insurance carriers	2,740,133	2,783,340
Receivable from Medicare	1,995,263	1,767,039
Receivable from Medicaid	955,705	501,616
Total patient receivables	7,669,948	6,853,646
Less allowances for contractual and other adjustments	(2,480,000)	(2,090,000)
Totals	<u>\$5,189,948</u>	<u>\$4,763,646</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 CAPITAL ASSETS

A summary of changes in the Hospital's capital assets for the year ended June 30, 2016 and 2015 follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2016</u>
Land	\$ 862,036	\$ —	\$ —	\$ —	\$ 862,036
Land improvements	3,482,600	160,928	—	24,161	3,667,689
Buildings	19,152,042	—	—	—	19,152,042
Fixed equipment	36,693,376	318,692	—	175,395	37,187,463
Major movable equipment	10,731,859	539,873	—	65,510	11,337,242
Construction in progress	<u>265,074</u>	<u>31,498</u>	<u>—</u>	<u>(265,066)</u>	<u>31,505</u>
Totals	71,186,987	1,050,990	—	—	72,237,977
Less accumulated depreciation and amortization	<u>(32,803,355)</u>	<u>(3,631,569)</u>	<u>—</u>	<u>—</u>	<u>(36,434,924)</u>
Net capital assets	<u>\$38,383,632</u>	<u>\$(2,580,579)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$35,803,053</u>

Construction in progress at June 30, 2016 consists of amounts spent to remodel certain Hospital space, and furnish with audio visual technology, known as meeting rooms A & B. Total costs of this project is estimated at \$125,000.

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2015</u>
Land	\$ 862,036	\$ —	\$ —	\$ —	\$ 862,036
Land improvements	3,454,600	28,000	—	—	3,482,600
Buildings	19,152,042	—	—	—	19,152,042
Fixed equipment	36,593,309	94,089	—	5,978	36,693,376
Major movable equipment	10,093,597	588,037	—	50,225	10,731,859
Construction in progress	<u>50,226</u>	<u>271,051</u>	<u>—</u>	<u>(56,203)</u>	<u>265,074</u>
Totals	70,205,810	981,177	—	—	71,186,987
Less accumulated depreciation and amortization	<u>(29,214,019)</u>	<u>(3,589,336)</u>	<u>—</u>	<u>—</u>	<u>(32,803,355)</u>
Net capital assets	<u>\$40,991,791</u>	<u>\$(2,608,159)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$38,383,632</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 CAPITAL ASSETS (continued)

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2016 and 2015 follows:

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Land	\$ 232,391	\$ —	\$ —	\$ —	\$ 232,391
Building and fixtures	—	—	—	2,416,487	2,416,487
Construction in progress	161,821	2,254,666	—	(2,416,487)	—
	394,212	2,254,666	—	—	2,648,878
Less accumulated depreciation	—	(36,531)	—	—	(36,531)
Totals	<u>\$ 394,212</u>	<u>\$2,218,135</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$2,612,347</u>

	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Land	\$ 232,391	\$ —	\$ —	\$ —	\$ 232,391
Construction in progress	—	161,821	—	—	161,821
Totals	<u>\$ 232,391</u>	<u>\$ 161,821</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 394,212</u>

NOTE 6 CONTRIBUTIONS RECEIVABLE

At June 30, 2016 the Foundation's contributions receivable consisted of contributions pledged for the replacement nursing home facility.

A summary of the activity in contributions receivable for the year ended June 30, 2016 is as follows:

Beginning contributions receivable	\$ 123,282
Contributions made during the year	1,449
Payments received	(137,298)
Decrease in discount of future payments receivable and allowance for uncollectible pledges	<u>35,000</u>
Ending contributions receivable	<u>\$ 22,433</u>

Contributions receivable at June 30, 2016, are expected to be received during the year ending June 30, 2017.

NOTE 7 OTHER ASSET

The Foundation invested \$50,000 in a limited liability company (LLC) during the year ended June 30, 2014, which represents an approximately 1.9% ownership in the LLC. This LLC was established to invest in a new hotel that has been built adjacent to the Health System's hospital campus. This asset declined in book value to \$40,103 at June 30, 2016.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 LEASE AGREEMENT

During May 2015, the Hospital entered into a lease with the Foundation in order to occupy as a tenant and for the use of twelve independent living units constructed at Landsmeer Ridge Retirement Community. The term of the lease covers the period from June 1, 2015 through May 31, 2025, and calls for annual payments of \$205,500 due on the first day of June, beginning June 2017 through the end of the lease. In connection with the execution of the lease, the Hospital remitted to the Foundation \$556,617, as a deposit on this lease. The tenant will also be required for certain ongoing operating expenses, as defined in the lease, through the lease term. The Foundation received rental income totaling \$80,021 on this lease during the year ended June 30, 2016. The lease contains an option to purchase aforementioned living units, and related land, on May 31, 2025 for \$2,260,000.

NOTE 9 LONG-TERM DEBT AND SUBSEQUENT REFUNDING EVENT

The City Council of Orange City adopted a resolution authorizing the issuance of \$6,800,000 of Hospital Revenue Capital Loan Notes Series 2007 dated December 13, 2007, to refinance existing indebtedness. The notes mature serially through September 1, 2021, with interest payable on March 1 and September 1 at annual rates varying from 4.10% - 4.65%. Notes maturing after September 1, 2016 may be called for redemption, by the issuer and paid before maturity on said date or any date thereafter. The balance outstanding at June 30, 2016 is \$3,480,000.

The City Council of Orange City adopted a resolution authorizing the issuance of \$19,255,000 of Hospital Revenue Capital Loan Notes Series 2008 dated January 8, 2008, to refinance existing indebtedness. The notes mature serially through September 1, 2032, with interest payable on March 1 and September 1 at annual rates varying from 5.50% to 5.60%. Notes maturing after September 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole from time to time in part, in any order at maturity and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to the date of call. The balance outstanding at June 30, 2016 is \$17,825,000.

The City Council of Orange City adopted a resolution on April 6, 2015 authorizing the issuance of Hospital Revenue Refunding Capital Loan Notes Series 2015 and 2016. The 2015 Note Series proceeds are not to exceed \$17,000,000, and are to be used by the Hospital to advance refund the outstanding 2008 Note Series bonds and pay certain costs related to the issuance. The 2016 Note Series proceeds are not to exceed \$3,000,000, and are to be used by the Hospital to advance refund the outstanding 2007 Note Series bonds and pay certain costs related to the issuance. The anticipated issuance dates for the 2015 Note Series and 2016 Note Series are December 22, 2015 and September 1, 2016, respectively. The interest rates for the 2015 Note Series and 2016 Note Series are 2.8524% and 2.7740%, respectively. The balance outstanding at June 30, 2016 is \$50,001.

On September 1, 2016, the outstanding 2007 and 2008 Note Series Bonds were refunded with the issuance of the 2015 and 2016 Note Series Bonds. For the 2015 Note Series Bonds, the total par amount is \$16,855,000, and the proceeds, beyond the initial \$50,001 loan advance, were deposited to an established escrow fund. These proceeds, along with a \$1,890,500 transfer from the existing 2007 and 2008 Note Series Bonds debt service reserve fund were deposited in to the escrow fund will remain until September 1, 2017. On September 1, 2017, the 2008 Note Series Bonds will be paid off in their entirety. For the 2016 Note Series Bonds, the total par amount is \$2,920,000, and the proceeds completed the refunding of the 2007 Note Series Bonds. In connection with the above transactions, the Hospital received approximately \$150,000, as reimbursement for certain closing costs related to the issuance of the 2015 and 2016 Note Series Bonds.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 LONG-TERM DEBT AND SUBSEQUENT REFUNDING EVENT (continued)

The City Council of Orange City adopted a resolution authorizing the issuance of \$6,000,000 of Hospital Revenue Capital Loan Notes Series 2012 dated June 13, 2012, to finance the constructing and equipping Prairie Ridge Care Center. The notes contain an interest reset provision beginning on June 1, 2019, and on June 1 every five years subsequent thereto, in which the interest rate will be adjusted to a product of 3% above the constant maturity of the United States 5-year Treasury Note as published by the Wall Street Journal, multiplied by .65%, subject to an interest rate cap of 9.5% and a floor of 3.5%. The interest rate at June 30, 2016 is 3.5%. The notes may be called for redemption by the issuer and paid before maturity on any date, in whole or in part, and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to date of call. The balance outstanding at June 30, 2016 is \$3,250,275.

As to the capital loan notes, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest and do not constitute an indebtedness of the City. The net revenues are pledged through September, 2033. As of June 30, 2016 the remaining principal and interest on the Series 2012, 2008 and 2007 was \$36,803,837, net of unamortized discount of \$171,963. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Capital Loan Notes for the years ended June 30, 2016 and 2015:

	Year ended June 30	
	2016	2015
Change in net position	\$3,845,623	\$2,458,230
Provision for depreciation	3,631,569	3,589,336
Interest and amortization expense	<u>1,275,313</u>	<u>1,352,346</u>
Pledged net revenues	<u>\$8,752,505</u>	<u>\$7,399,912</u>
Principal and interest requirements		
Capital Loan Notes, Series 2007	\$ 698,065	\$ 698,807
Capital Loan Notes, Series 2008	1,230,253	1,227,765
Capital Loans Notes, Series 2012	<u>1,344,352</u>	<u>1,344,353</u>
Totals	<u>\$3,272,670</u>	<u>\$3,270,925</u>

The following summarizes the maturities of long-term debt:

	Revenue notes payable		
	Principal	Interest	Total
Year ending June 30			
2017	\$ 1,037,610	\$ 1,234,680	\$ 2,272,290
2018	1,135,824	1,188,782	2,324,606
2019	1,134,325	1,139,982	2,274,307
2020	1,183,126	1,088,245	2,271,371
2021	1,237,245	1,033,513	2,270,758
2022 - 2026	7,189,578	4,167,993	11,357,571
2027 - 2031	8,037,568	2,138,166	10,175,734
2032 - 2034	<u>3,650,000</u>	<u>207,200</u>	<u>3,857,200</u>
Total	24,605,276	12,198,561	36,803,837
Less unamortized discount	<u>(171,963)</u>	<u>—</u>	<u>(171,963)</u>
Totals	<u>\$24,433,313</u>	<u>\$12,198,561</u>	<u>\$36,631,874</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 LONG-TERM DEBT AND SUBSEQUENT REFUNDING EVENT (continued)

Long-term debt activity for the years ended June 30, 2016 and 2015 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2016					
Hospital revenue notes	<u>\$26,537,722</u>	<u>\$ 50,001</u>	<u>\$1,982,447</u>	<u>\$24,605,276</u>	<u>\$1,037,610</u>
2015					
Hospital revenue notes	<u>\$28,442,189</u>	<u>\$ —</u>	<u>\$1,904,467</u>	<u>\$26,537,722</u>	<u>\$ 959,803</u>

The Foundation has entered into a noninterest bearing term loan agreement with the City of Orange City Municipal Electrical Utility, a Division of the City of Orange City, through the United States Rural Economic Development Loan and Grant Program. The purpose of the loan was to finance the construction of a twelve-unit independent living addition at Landsmeer Ridge Retirement Community. The \$1,760,000 unsecured loan, dated February 26, 2016, calls for monthly payment of \$16,297 beginning March 1, 2017 and continuing until the loan is paid in full. The balance of the loan at June 30, 2016 is \$1,760,000.

Aggregate maturities on the loan are as follows:

2017	\$ 65,188
2018	195,564
2019	195,564
2020	195,564
2021	195,564
Thereafter	<u>912,556</u>
Total	<u>\$1,760,000</u>

NOTE 10 PENSION PLAN

Plan Description

IPERS is a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System. Membership is mandatory for employees of the Hospital, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 PENSION PLAN (continued)

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 PENSION PLAN (continued)

Contributions (continued)

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.56 percent of pay and the hospital contributed 9.84 percent for a total rate of 16.40 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2016 and 2015 were \$1,615,826 and \$1,558,945, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, the Hospital reported a liability of \$12,352,000 and \$10,045,417, respectively, for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. The following table summarizes the change in the Hospital's proportionate share:

	Measurement date June 30		Change
	2015	2014	
Hospital's proportionate share	0.250019%	0.253294%	(0.003275)%

For the years ended June 30, 2016 and 2015, the Hospital recognized pension expense of \$1,159,415 and \$495,708. At June 30, 2016 and 2015, respectively, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 186,966	\$ 4,325	\$ 105,974	\$ —
Change in assumptions	340,598	137	445,023	—
Net difference between projected and actual earnings on pension plan investments	—	1,039,955	—	3,886,145
Change in proportion and difference between Hospital contributions and proportionate share of contributions	336,610	9,583	439,220	—
Hospital contributions subsequent to the measurement date	<u>1,615,826</u>	<u>—</u>	<u>1,558,945</u>	<u>—</u>
Totals	<u>\$2,480,000</u>	<u>\$1,054,000</u>	<u>\$2,549,162</u>	<u>\$3,886,145</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 PENSION PLAN (continued)

**Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources
Related to Pensions (continued)**

\$1,615,826 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,

2017	\$ (249,788)
2018	(249,788)
2019	(249,788)
2020	554,108
2021	<u>5,608</u>
Totals	<u>\$ (189,648)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3.00 percent
Salary increases	4.00 to 17.00 percent, average, including inflation
Investment rate of return	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies.

Mortality rates were based on the RP-2000 Generational Mortality Tables with adjustments for mortality improvements based on Scale AA.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 PENSION PLAN (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Rate of Return</u>
US Equity	24%	6.29
Non US Equity	16	6.75
Private Equity	11	11.32
Real Estate	8	3.48
Core Plus Fixed Income	28	2.04
Credit Opportunities	5	3.68
TIPS	5	1.91
Other Real Assets	2	6.24
Cash	<u>1</u>	—
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	<u>\$21,730,987</u>	<u>\$12,352,000</u>	<u>\$4,435,905</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2016 and 2015, the Hospital reported payables to the defined benefit pension plan of approximately \$322,762 and \$62,565, respectively, for legally required contributions not yet remitted to IPERS.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 EMPLOYEE BENEFITS

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$50,000 per person and approximately \$4,000,000 in the aggregate per plan year. Expense under this self-insurance program for the years ended June 30, 2016 and 2015 was \$3,155,805 and \$2,730,898, respectively, which includes program administration expenses.

In 2002, the Hospital established a Key Employee Share Option Program (KEYSOP) which is a nonqualified voluntary contributory savings plan for certain employees. During the year ended June 30, 2003, the Hospital established a Voluntary Deferral Plan which is also a nonqualified voluntary contributory savings plan for certain employees. Under these programs the Hospital purchases and holds investment assets, recorded at fair value, equal to the participant's voluntary contributions. As a result, the Hospital has recorded an asset and an equal corresponding liability of \$921,379 and \$1,142,811 to reflect the fair value of these program assets as of June 30, 2016 and 2015, respectively, and related liability to participants.

NOTE 12 OTHER POST EMPLOYMENT BENEFITS

The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 264 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefit plan is self-insured and is administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

The Hospital's annual OPEB cost is calculated based on the annual required contribution, (ARC), of the Hospital, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2016, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 30,051
Interest on net OPEB obligation	2,487
Adjustment to annual required contribution	<u>(15,038)</u>
Annual OPEB cost	17,500
Contributions made	<u>—</u>
Increase in net OPEB obligation	17,500
Net OPEB obligation, beginning of year	<u>66,500</u>
Net OPEB obligation, end of year	<u>\$ 84,000</u>

The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 OTHER POST EMPLOYMENT BENEFITS (continued)

For the year ended June 30, 2016, the Hospital contributed \$-0- to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2016, 2015 and 2012 are summarized as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2016	\$ <u>17,500</u>	<u>0%</u>	\$ <u>84,000</u>
June 30, 2015	\$ <u>16,000</u>	<u>0%</u>	\$ <u>66,500</u>

As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2016, the actuarial accrued liability was approximately \$261,600 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, (UAAL), of \$261,600. As of June 30, 2016, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2015 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.75% discount rate. The projected annual medical trend rate is 7%. The ultimate medical trend rate is 4%. The medical trend rate is reduced each year until reaching the ultimate trend rate.

Mortality rates are based on the RP-2000 Mortality Rates, applied on a gender-specific basis. The mortality assumptions are generational, meaning that future mortality improvements are applied using Projection Scale AA. Termination rates used in the actuarial valuation are based upon national termination studies performed by the Society of Actuaries. They were adjusted to reflect the recent lower termination rates experienced by the Hospital. Retirement rates used in the actuarial valuation were developed based upon recent Hospital experience.

Projected weighted average claim costs of the medical plan are approximately \$1,055 per month for retirees. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 MALPRACTICE CLAIMS

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate for institutional claims and \$1,000,000 per claim and \$3,000,000 in the aggregate for physician claims.

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

Incidents occurring through June 30, 2016 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 14 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for Medicare services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. Beginning April 1, 2016, Iowa Medicaid has transitioned management of the program to three managed care organizations. As a result, the Hospital will continue to be reimbursed using a cost based methodology, however Medicaid reimbursement will no longer be subject to a final settlement based on actual costs incurred. The Hospital will annually negotiate Medicaid payment rates with the managed care organizations based on annual Medicare and Medicaid cost reporting. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2014.

Other

The Hospital also has payment agreements with Wellmark and other certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

NOTE 15 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Charges foregone, based on established rates	\$ <u>280,740</u>	\$ <u>222,469</u>
Equivalent percentage of charity care patients to all patients served	<u>0.5%</u>	<u>0.4%</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 16 HOSPITAL RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 17 LEASE COMMITMENTS AND SPACE LEASED TO OTHERS

The Hospital leases MRI medical equipment under a non-cancelable lease. The lease calls for forty-four monthly payments of \$11,773, beginning in December 2013, through the end of the lease.

The Hospital leases a vehicle under a cancelable lease. The current lease calls for forty-eight monthly payments of \$469, beginning in May 2013, with a final payment of \$30,942 at the end of the lease.

Operating expenses incurred on the above equipment leases totaled \$146,901 and \$172,152 for the years ended June 30, 2016 and 2015, respectively.

Lease agreement with the Foundation, See Note 8.

The minimum future rentals under the leases as of June 30, 2016, are as follows:

Year ending June 30

2017	\$ 382,874
2018	217,273
2019	205,500
2020	205,500
2021	205,500
Thereafter	<u>616,500</u>
Total	<u>\$1,833,147</u>

The Hospital, through various agreements, leases office space within the downtown campus to various organizations. The leases, which are for various terms, each call for lease rents per tenant, subject to certain modifications during the lease period. Other revenue for the years ended June 30, 2016 and 2015 included \$175,573 and \$195,049, respectively, of aggregate rental income under the lease agreements.

NOTE 18 ORANGE CITY AREA HEALTH FOUNDATION

The Hospital's management has determined that the Orange City Area Health Foundation is a component unit of the Hospital. The Orange City Area Health Foundation has been established to raise funds to support the operations and other activities of the Orange City Municipal Hospital. The Foundation has received funds and secured contribution commitments in a capital campaign to benefit the Hospital's construction of a replacement nursing home facility. And as such, the Foundation is considered to be a component unit of the Hospital based upon the significance of this capital campaign and the related benefit to the Hospital. The Foundation made restricted contributions of \$184,000 and \$201,361 to the Hospital for the years ended June 30, 2016 and 2015, respectively. The Foundation's audited statements of financial position as of June 30, 2016 and 2015, and audited statement of activities and cash flows for the years then ended, are included on pages 17 - 19.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 19 ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for the fiscal year ended June 30, 2016 was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

Net position

Net position June 30, 2014, as previously reported	\$30,198,131
Net pension liability at June 30, 2014	(13,582,960)
Deferred outflows of resources related to contributions made After the June 30, 2013 measurement date	<u>1,502,832</u>
Net position July 1, 2014, as restated	<u>\$18,118,003</u>

REQUIRED SUPPLEMENTARY INFORMATION

Orange City Area Health System
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

Required Supplementary Information

Year ended June 30	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b – a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b – a)/c)
2016	July 1, 2014	\$ <u>—</u>	<u>\$261.6</u>	<u>\$261.6</u>	<u>0.0%</u>	<u>\$18,605</u>	<u>1.4%</u>
2015	July 1, 2014	\$ <u>—</u>	<u>\$261.6</u>	<u>\$261.6</u>	<u>0.0%</u>	<u>\$17,815</u>	<u>1.5%</u>
2014	July 1, 2012	\$ <u>—</u>	<u>\$173.5</u>	<u>\$173.5</u>	<u>0.0%</u>	<u>\$17,561</u>	<u>1.0%</u>
2013	July 1, 2012	\$ <u>—</u>	<u>\$173.5</u>	<u>\$173.5</u>	<u>0.0%</u>	<u>\$17,220</u>	<u>1.0%</u>

See Note 12 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

**Orange City Area Health System
BUDGETARY COMPARISON SCHEDULE
Required Supplementary Information
Year ended June 30, 2016**

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget which is filed with the City Clerk of Orange City to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2016 (Hospital only, excluding Foundation).

	<u>Total Per Hospital Statements</u>	<u>Budgeted Amount</u>	<u>Amount Over (Under) Budget</u>
Total expenses including interest and amortization expense	\$ <u>45,499,111</u>	\$ <u>45,667,673</u>	\$ <u>(168,562)</u>

Orange City Area Health System
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	Year ended June 30	
	2016	2015
Hospital's proportion of the net pension liability	0.250019%	0.253294%
Hospital's proportionate share of the net pension liability	\$12,352	\$10,045
Hospital's total payroll	\$18,605	\$17,815
Hospital's proportionate share of the net pension liability as a percentage of its total payroll	66%	57%
Plan fiduciary net position as a percentage of the total pension liability	85%	88%

See accompanying notes to required supplementary information – pension liability.

Orange City Area Health System
SCHEDULE OF HOSPITAL PENSION CONTRIBUTIONS
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	Year ended June 30			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 1,616	\$ 1,559	\$ 1,505	\$ 1,416
Contributions in relation to the statutorily required contribution	<u>1,616</u>	<u>1,559</u>	<u>1,505</u>	<u>1,416</u>
Contribution deficiency (excess)	\$ <u><u>—</u></u>	\$ <u><u>—</u></u>	\$ <u><u>—</u></u>	\$ <u><u>—</u></u>
Hospital's total payroll	\$18,605	\$17,815	\$17,561	\$16,778
Contributions as a percentage of total payroll	8.7%	8.8%	8.6%	8.4%

See accompanying notes to required supplementary information – pension liability.

Year ended June 30					
<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,263	\$ 1,064	\$ 985	\$ 941	\$ 848	\$ 785
<u>1,263</u>	<u>1064</u>	<u>985</u>	<u>941</u>	<u>848</u>	<u>785</u>
\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
\$16,443	\$15,383	\$14,843	\$15,080	\$14,541	\$13,478
7.7%	6.9%	6.6%	6.2%	5.8%	5.8%

Orange City Area Health System
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
Year ended June 30, 2016

CHANGES OF BENEFIT TERMS

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

CHANGES OF ASSUMPTIONS

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

SUPPLEMENTARY INFORMATION

**Orange City Area Health System
AGE ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
0 - 30 days	\$4,622,894	\$3,725,590	60.26%	54.36%
31 - 60 days	1,037,462	1,038,911	13.53	15.16
61 - 90 days	488,203	506,117	6.37	7.38
91 - 180 days	637,264	774,882	8.31	11.31
Over 6 months	<u>884,125</u>	<u>808,146</u>	<u>11.53</u>	<u>11.79</u>
Totals	<u>7,669,948</u>	<u>6,853,646</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	970,000	915,000		
Contractual adjustments	<u>1,510,000</u>	<u>1,175,000</u>		
Total allowances	<u>2,480,000</u>	<u>2,090,000</u>		
Totals	<u>\$5,189,948</u>	<u>\$4,763,646</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Year ended June 30</u>	
	<u>2016</u>	<u>2015</u>
BALANCE , beginning	\$ 915,000	\$ 900,000
Provision for bad debts	349,538	233,080
Recoveries of accounts written off previously	343,084	400,546
Accounts written off	<u>(637,622)</u>	<u>(618,626)</u>
BALANCE , ending	<u>\$ 970,000</u>	<u>\$ 915,000</u>

See accompanying independent auditor's report.

**Orange City Area Health System
INVENTORIES**

	June 30	
	<u>2016</u>	<u>2015</u>
General stores	\$ 271,669	\$ 280,618
Central supply	35,335	32,313
Operating room	78,128	78,329
Radiology	4,076	3,951
Medical clinics	<u>49,407</u>	<u>75,088</u>
Totals	<u>\$ 438,615</u>	<u>\$ 470,299</u>

See accompanying independent auditor's report.

**Orange City Area Health System
INSURANCE COVERAGE
June 30, 2016**

Cincinnati Insurance Company (policy expiration June 30, 2017)

Building and contents, builders risk, fire and extended coverage (100% co-insurance, replacement value, and special causes of loss)	\$75,837,000
Downtown Campus (80% Co-insurance, actual cash value, and special clauses)	\$6,083,000
	\$5,000 deductible

Blanket earnings and expense	\$31,089,575
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Owned automobiles

Liability	\$1,000,000
Collision and comprehensive	\$1,000 deductible
Uninsured/underinsured motorist	\$1,000,000
Medical payments	\$5,000

Blanket fidelity bond

Employees	\$150,000
	\$2,500 deductible

Accounts receivable records	\$1,000,000
	\$5,000 deductible

Equipment floater	\$167,500
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Cincinnati Insurance Company (policy expiration July 1, 2017)

Directors, officers and hospital staff liability	\$1,000,000
	\$15,000 deductible

Cyber Liability	\$3,000,000
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Employment practices liability	\$1,000,000
	\$25,000 deductible

ProAssurance Casualty Company (policy expiration July 1, 2017)

Employee benefit liability	\$1,000,000
Professional liability—hospital	\$1,000,000/3,000,000
Professional liability—physicians	\$1,000,000/3,000,000
General liability	\$1,000,000/3,000,000
Excess professional liability	\$5,000,000
Excess liability hospital	\$5,000,000

Accident Fund Insurance Company of America (policy expiration April 1, 2017)

Workers' compensation	\$500,000
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The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

See accompanying independent auditor's report.

**Orange City Area Health System
PATIENT SERVICE REVENUE**

	Total		Inpatient	
	Year ended June 30		Year ended June 30	
	2016	2015	2016	2015
DAILY PATIENT SERVICES				
Medical, surgical and obstetric	\$ 5,069,076	\$ 4,624,807	\$2,716,254	\$2,542,880
Special care	40,960	40,000	40,960	40,000
Long term care	6,402,688	6,050,688	—	—
Nursery	471,448	412,277	471,448	412,277
	<u>11,984,172</u>	<u>11,127,772</u>	<u>3,228,662</u>	<u>2,995,157</u>
OTHER NURSING SERVICES				
Operating and recovery room	5,820,810	4,857,169	807,453	714,919
Central service and supply	940,013	921,245	338,222	387,928
Emergency service	2,558,878	1,941,469	63,587	59,855
Ambulance	533,940	454,037	64,780	62,087
Home Health	1,103,034	1,014,621	—	—
Hospice	544,748	516,697	423,866	77,958
	<u>11,501,423</u>	<u>9,705,238</u>	<u>1,697,908</u>	<u>1,302,747</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	4,620,765	4,530,080	527,120	449,694
Radiology	6,779,416	6,023,531	224,471	188,428
Pharmacy	4,924,555	4,705,313	1,006,287	918,551
Anesthesiology	2,007,822	1,937,927	468,937	459,390
Respiratory therapy and oxygen	286,842	394,982	131,311	212,524
Physical therapy	2,631,140	2,450,330	153,630	142,187
Cardio pulmonary	1,185,192	943,138	49,314	46,600
Pulmonary rehabilitation	5,495	8,624	—	—
Speech therapy	73,020	51,896	3,364	4,464
Audiology	43,630	58,584	—	—
Orange City medical clinic	11,079,083	10,311,096	—	—
Hospers medical clinic	447,013	399,686	—	—
Paullina medical clinic	778,673	713,994	—	—
Specialty clinics	510,830	479,226	—	2,205
Surgery	1,814,110	1,641,333	—	—
	<u>37,187,586</u>	<u>34,649,740</u>	<u>2,564,434</u>	<u>2,424,043</u>
	60,673,181	55,482,750	\$7,491,004	\$6,721,947
Charity care charges foregone, based on established rates	<u>280,740</u>	<u>222,469</u>		
Total gross patient service revenue	60,392,441	55,260,281		
Provisions for contractual and other adjustments	<u>14,749,725</u>	<u>13,740,853</u>		
Net patient service revenue	<u>\$45,642,716</u>	<u>\$41,519,428</u>		

See accompanying independent auditor's report.

<u>Outpatient</u>		<u>Swing bed</u>		<u>Intermediate care unit</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
\$ 2,351,178	\$ 2,080,137	\$ 1,644	\$ 1,790	\$ —	\$ —
—	—	—	—	—	—
—	—	658,905	650,810	5,743,783	5,399,878
—	—	—	—	—	—
<u>2,351,178</u>	<u>2,080,137</u>	<u>660,549</u>	<u>652,600</u>	<u>5,743,783</u>	<u>5,399,878</u>
5,007,068	4,133,162	6,289	9,088	—	—
591,466	524,882	10,280	8,372	45	63
2,495,291	1,881,614	—	—	—	—
469,160	391,950	—	—	—	—
1,103,034	1,014,621	—	—	—	—
120,882	438,739	—	—	—	—
<u>9,786,901</u>	<u>8,384,968</u>	<u>16,569</u>	<u>17,460</u>	<u>45</u>	<u>63</u>
4,032,232	4,014,978	61,413	65,408	—	—
6,534,849	5,812,177	20,096	22,926	—	—
3,494,495	3,391,191	312,134	284,309	111,639	111,262
1,537,175	1,475,787	1,710	2,750	—	—
114,815	112,731	40,716	69,727	—	—
2,190,536	2,030,987	286,974	277,156	—	—
1,128,150	882,963	7,728	13,575	—	—
5,495	8,624	—	—	—	—
67,267	41,144	2,389	6,288	—	—
43,630	58,584	—	—	—	—
11,079,083	10,311,096	—	—	—	—
447,013	399,686	—	—	—	—
778,673	713,994	—	—	—	—
510,830	477,021	—	—	—	—
1,814,110	1,641,333	—	—	—	—
<u>33,778,353</u>	<u>31,372,296</u>	<u>733,160</u>	<u>742,139</u>	<u>111,639</u>	<u>111,262</u>
<u>\$45,916,432</u>	<u>\$41,837,401</u>	<u>\$1,410,278</u>	<u>\$1,412,199</u>	<u>\$5,855,467</u>	<u>\$5,511,203</u>

See accompanying independent auditor's report.

Orange City Area Health System
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	Year ended June 30	
	<u>2016</u>	<u>2015</u>
Contractual adjustments and discounts	\$14,400,187	\$13,507,773
Provision for bad debts	<u>349,538</u>	<u>233,080</u>
Totals	<u>\$14,749,725</u>	<u>\$13,740,853</u>

OTHER REVENUE

	Year ended June 30	
	<u>2016</u>	<u>2015</u>
Cafeteria	\$ 218,404	\$ 220,217
Other	637,313	810,557
Lifeline	45,306	41,500
Landsmeer Ridge	1,625,619	1,477,090
340B Program	<u>792,020</u>	<u>735,483</u>
Totals	<u>\$3,318,662</u>	<u>\$3,284,847</u>

**Orange City Area Health System
NURSING SERVICE EXPENSES**

	Year ended June 30	
	2016	2015
NURSING ADMINISTRATION		
Salaries	\$ 101,546	\$ 95,884
Supplies and expenses	<u>3,282</u>	<u>4,165</u>
	<u>104,828</u>	<u>100,049</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,814,190	1,670,618
Supplies and expenses	<u>373,391</u>	<u>316,365</u>
	<u>2,187,581</u>	<u>1,986,983</u>
SPECIAL CARE		
Salaries	4,742	7,930
Supplies and expenses	<u>32</u>	<u>49</u>
	<u>4,774</u>	<u>7,979</u>
SWING BED		
Salaries	<u>4,506</u>	<u>4,181</u>
INTERMEDIATE CARE		
Salaries	3,024,155	2,930,408
Purchased services	10,618	8,211
Supplies and expenses	<u>1,421,407</u>	<u>1,325,296</u>
	<u>4,456,180</u>	<u>4,263,915</u>
NURSERY		
Salaries	96,400	72,934
Supplies and expenses	<u>13,753</u>	<u>10,598</u>
	<u>110,153</u>	<u>83,532</u>
OPERATING AND RECOVERY ROOMS		
Salaries	713,733	697,525
Supplies and expenses	<u>347,893</u>	<u>259,296</u>
	<u>1,061,626</u>	<u>956,821</u>
CENTRAL SERVICE AND SUPPLY		
Billable supplies	<u>480,544</u>	<u>468,960</u>

See accompanying independent auditor's report.

**Orange City Area Health System
NURSING SERVICE EXPENSES (continued)**

	Year ended June 30	
	<u>2016</u>	<u>2015</u>
EMERGENCY SERVICE		
Salaries	\$ 1,498,258	\$ 1,370,129
Purchased services	71,517	55,324
Supplies and expenses	34,726	33,156
	<u>1,604,501</u>	<u>1,458,609</u>
AMBULANCE		
Salaries	51,932	83,022
Supplies and expenses	51,218	30,287
	<u>103,150</u>	<u>113,309</u>
HOME HEALTH		
Salaries	394,830	430,651
Purchased services	117,522	65,159
Supplies and expenses	95,016	97,492
	<u>607,368</u>	<u>593,302</u>
HOSPICE		
Salaries	260,189	247,403
Supplies and expenses	172,300	120,033
	<u>432,489</u>	<u>367,436</u>
 Totals	 <u>\$11,157,700</u>	 <u>\$10,405,076</u>

**Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES**

	Year ended June 30	
	2016	2015
LABORATORY		
Salaries	\$ 541,925	\$ 523,710
Professional fees	274,357	319,123
Supplies and expenses	493,834	439,561
	<u>1,310,116</u>	<u>1,282,394</u>
RADIOLOGY		
Salaries	931,022	936,394
Professional fees	348,268	276,903
Purchased services	222,044	345,179
Supplies and expenses	324,484	191,809
	<u>1,825,818</u>	<u>1,750,285</u>
ONCOLOGY		
Salaries	33,128	31,218
Supplies and expenses	797	457
	<u>33,925</u>	<u>31,675</u>
PHARMACY		
Salaries	66,893	64,652
Purchased services	2,394,204	2,175,646
Supplies and expenses	52,432	11,463
	<u>2,513,529</u>	<u>2,251,761</u>
ANESTHESIOLOGY		
Salaries	—	139,972
Professional fees	894,604	621,082
Supplies and expenses	22,886	22,038
	<u>917,490</u>	<u>783,092</u>
RESPIRATORY THERAPY		
Salaries	140,522	121,933
Oxygen	37,440	36,809
Supplies and expenses	5,125	10,955
	<u>183,087</u>	<u>169,697</u>
PHYSICAL THERAPY		
Salaries	50,180	54,264
Purchased services	1,262,116	1,183,027
Supplies and expenses	43,440	27,107
	<u>1,355,736</u>	<u>1,264,398</u>
CARDIO PULMONARY		
Purchased services	242,572	207,909
Supplies and expenses	181	8
	<u>242,753</u>	<u>207,917</u>

See accompanying independent auditor's report.

Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2016	2015
SPEECH THERAPY		
Purchased services	\$ 32,023	\$ 24,179
AUDIOLOGY		
Purchased services	32,154	31,130
Supplies and expenses	<u>—</u>	<u>180</u>
	<u>32,154</u>	<u>31,310</u>
OCCUPATIONAL HEALTH SERVICES		
Salaries	92,453	88,748
Purchased services	881	679
Supplies and expenses	<u>23,032</u>	<u>24,678</u>
	<u>116,366</u>	<u>114,105</u>
ORANGE CITY MEDICAL CLINIC		
Salaries	4,060,956	3,814,554
Purchased services	603,338	609,239
Medical supplies	745,590	694,574
Supplies and expenses	65,204	50,148
Utilities	67,079	51,890
Telephone	17,951	16,751
Insurance	87,527	77,793
Employee benefits	<u>1,168,716</u>	<u>1,038,837</u>
	<u>6,816,361</u>	<u>6,353,786</u>
HOSPERS MEDICAL CLINIC		
Salaries	139,976	161,715
Purchased service	33,153	30,829
Medical supplies	28,827	11,871
Supplies and expenses	28,041	22,932
Utilities	2,124	2,442
Telephone	5,920	2,458
Employee benefits	<u>66,723</u>	<u>65,785</u>
	<u>304,764</u>	<u>298,032</u>
PAULLINA MEDICAL CLINIC		
Salaries	301,330	282,895
Purchased service	67,763	67,824
Medical supplies	37,782	28,777
Supplies and expenses	30,370	27,071
Utilities	5,903	6,385
Telephone	7,664	5,805
Employee benefits	<u>91,420</u>	<u>89,291</u>
	<u>542,232</u>	<u>508,048</u>
SPECIALTY CLINICS		
Salaries	158,347	161,414
Supplies and expenses	<u>3,672</u>	<u>6,838</u>
	<u>162,019</u>	<u>168,252</u>

See accompanying independent auditor's report.

Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2016	2015
SURGERY		
Salaries	\$ 718,926	\$ 679,441
Purchased services	14,450	2,550
Supplies and expenses	50,120	51,419
Utilities	<u>2,332</u>	<u>2,275</u>
	<u>785,828</u>	<u>735,685</u>
LANDSMEER RIDGE		
Salaries	504,856	481,163
Purchased services	12,606	8,678
Medical supplies	1,699	1,408
Supplies and expenses	394,158	253,563
Utilities	82,620	86,297
Telephone	11,389	11,482
Insurance	<u>7,842</u>	<u>6,264</u>
	<u>1,015,170</u>	<u>848,855</u>
SOCIAL SERVICE		
Salaries	<u>154,830</u>	<u>141,855</u>
MEDICAL RECORDS		
Salaries	342,428	328,905
Supplies and expenses	<u>16,521</u>	<u>17,411</u>
	<u>358,949</u>	<u>346,316</u>
Totals	<u>\$18,703,150</u>	<u>\$17,311,642</u>

**Orange City Area Health System
GENERAL SERVICE EXPENSES**

	Year ended June 30	
	<u>2016</u>	<u>2015</u>
DIETARY		
Salaries	\$ 309,013	\$ 286,687
Food	286,135	294,085
Supplies and expenses	<u>83,712</u>	<u>68,864</u>
	<u>678,860</u>	<u>649,636</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	287,139	275,704
Utilities	425,106	498,375
Purchased services	70,374	53,540
Supplies and expenses	<u>145,026</u>	<u>204,568</u>
	<u>927,645</u>	<u>1,032,184</u>
HOUSEKEEPING		
Salaries	232,693	212,938
Supplies and expenses	<u>62,992</u>	<u>60,262</u>
	<u>295,685</u>	<u>273,200</u>
LAUNDRY AND LINEN		
Salaries	29,297	29,313
Supplies and expenses	<u>6,480</u>	<u>1,694</u>
	<u>35,777</u>	<u>31,007</u>
 Totals	 <u>\$1,937,967</u>	 <u>\$1,986,027</u>

**Orange City Area Health System
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES**

	Year ended June 30	
	2016	2015
FISCAL AND ADMINISTRATIVE SERVICE		
Administrative and general		
Salaries	\$ 807,269	\$ 770,727
Management fees	436,417	440,411
Professional services	67,833	58,932
Collection	60,258	57,641
Telephone	62,978	60,227
Supplies and expenses	<u>1,264,766</u>	<u>1,354,743</u>
	<u>2,699,521</u>	<u>2,742,681</u>
Human resources		
Salaries	181,521	168,044
Supplies and expenses	<u>148,972</u>	<u>146,832</u>
	<u>330,493</u>	<u>314,876</u>
Regulatory affairs		
Salaries	80,364	52,397
Supplies and expenses	<u>2,092</u>	<u>1,824</u>
	<u>82,456</u>	<u>54,221</u>
Community relations		
Salaries	67,629	66,635
Supplies and expenses	<u>151,247</u>	<u>121,324</u>
	<u>218,876</u>	<u>187,959</u>
Receiving and stores		
Salaries	132,712	132,330
Supplies and expenses	<u>44,114</u>	<u>37,555</u>
	<u>176,826</u>	<u>169,885</u>
Admissions		
Salaries	274,798	247,202
Supplies and expenses	<u>9,388</u>	<u>8,490</u>
	<u>284,186</u>	<u>255,692</u>
Total fiscal and administrative expenses	<u>3,792,358</u>	<u>3,725,314</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,748,164	1,424,841
Group health insurance	2,513,158	2,162,265
Other	217,775	183,092
Insurance	<u>521,957</u>	<u>566,791</u>
Total unassigned expenses	<u>5,001,054</u>	<u>4,336,989</u>
Totals	<u>\$8,793,412</u>	<u>\$8,062,303</u>

See accompanying independent auditor's report.

**Orange City Area Health System
COMPARATIVE STATISTICS
(Unaudited)**

	<u>Year ended June 30</u>	
	<u>2016</u>	<u>2015</u>
PATIENT DAYS		
Adult and pediatric	2,632	2,517
Nursery	612	547
Swing bed		
Skilled nursing care	1,284	1,324
Intermediate care	68	49
Intermediate care	<u>29,968</u>	<u>29,708</u>
Totals	<u>34,564</u>	<u>34,145</u>
ADMISSIONS		
Adult and pediatric	798	779
Swing bed		
Skilled nursing care	118	125
Intermediate care	23	11
Intermediate care	<u>35</u>	<u>27</u>
Total admissions	<u>974</u>	<u>942</u>
DISCHARGES		
Adult and pediatric	803	779
Swing bed		
Skilled nursing care	115	125
Intermediate care	24	11
Intermediate care	<u>34</u>	<u>29</u>
Total discharges	<u>976</u>	<u>944</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.28	3.23
Swing bed		
Skilled nursing care	11.17	10.59
Intermediate care	2.83	4.45
Intermediate care	881.41	1,024.41
BEDS		
Adult, pediatric and swing bed	24	25
Intermediate care	83	83
OCCUPANCY PERCENT		
Adult, pediatric and swing bed	50.23%	48.62%
Intermediate care	98.65%	98.06%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$124,707	\$113,752
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT ACCOUNTS RECEIVABLE AT END OF YEAR	41.62	42.10

See accompanying independent auditor's report.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Orange City Area Health System,
an Administrative Agency of the City of Orange City, Iowa
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Orange City Area Health System (Hospital), and its component unit, Orange City Area Health System Foundation (Foundation), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital and Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital and Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital and Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital and Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital and Foundation's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and Foundation. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital and Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital and Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 20, 2016

**Orange City Municipal Hospital
d/b/a Orange City Area Health System
SCHEDULE OF FINDINGS
Year ended June 30, 2016**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

Part II—Findings Related to Required Statutory Reporting

16-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

16-II-B TRAVEL EXPENSES

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

16-II-C BUSINESS TRANSACTIONS

No business transactions were found between the Hospital and a Hospital official were noted.

16-II-D BOARD MINUTES

No transactions were found that we believe should have been approved in the Board minutes but were not.

16-II-E DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Hospital's investment policy.

16-II-F CERTIFIED BUDGET

Based on a comparison of actual and budgeted expenditures, it appears the Hospital did not exceed its budget for the year ended June 30, 2016.